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# REMARKS

ON

THE QUESTION OF AGAIN PERMITTING

THE ISSUE OF

ONE POUND NOTES

BY

THE BANK OF ENGLAND,

AND ALSO

BY COUNTRY BANKS.

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SECOND EDITION.

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# SUMMARY.

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	Page
INTRODUCTION. ....	1

## SECTION I.

On the Issue of One Pound Notes by the Bank of England .....	12
---	----

## SECTION II.

On the Issue of One Pound Notes by Country Banks .....	23
---	----

## SECTION III.

On the consequences of again allowing the Issue of One Pound Notes, if Great Britain was in- volved in a War .....	29
--	----

## SECTION IV.

Result of such a measure if Great Britain con- tinued at Peace .....	36
---	----

## SECTION V.

Additional Remarks.....	43
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## REMARKS,

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ALTHOUGH the question of again adding one pound notes to our currency has already occupied much of public attention, it is hoped these few remarks may be received with indulgence at this particular time.

Some individuals, whose character entitles their opinions to be received with respect, have come forward of late, and asserted, that a permission granted to the bank of England, and to country banks, to issue one pound notes might be a measure beneficial to the agricultural interest of the country: a similar sentiment has been adopted by a few country gentlemen, and a

deep impression has been made on the minds of several agriculturists, that the issue of one pound notes would effectually relieve the pressure on the landed interest, so severely felt, and so much complained of within the last few months.

Let us, therefore, in these remarks, endeavour to divest ourselves of all prejudice, and, anxious only for the welfare of the community, briefly consider the question; whether, or not, it would be advisable that the bank of England, and country banks, should be permitted to issue one pound notes. The consideration of the subject may be divided as follows:—On the issue of one pound notes by the bank of England;—on the issue of such notes by country banks;—on the results of such a measure, if Britain were involved in a war;—on the consequences, if Great Britain continued in a state of peace.

At the first blush of the question it may, to an inattentive observer, appear of little moment, whether the bank of England, and country banks, should, or should not, possess the power of issuing one pound notes. Some may imagine that,

as each of these parties has the power to issue five and ten pound notes, or notes of a higher value, it signifies little to the community whether the additional permission, of issuing one pound notes, be also granted; the great importance, however, of the question will be evident on further consideration.

As long as the bank of England is not permitted to issue one pound notes, that corporation is necessarily restricted in its issue of other paper,—for this reason; if paper, (that is, bank notes of five, of ten pounds, or of a greater value,) were issued by the bank of England to a very great extent, it is clear, that when these notes returned to the bank, that establishment must pay, or rather exchange them, with other paper, or with gold; if no one pound notes were in existence, the amount must be paid in gold: the issue of notes must, therefore, necessarily be regulated by the extent of gold the bank has at its command. For example, if the bank of England have in circulation say (it may be much more or less, the amount is nothing to the

argument,) eighteen millions of notes, of the value of five pounds and upwards, the public can, at any time, take these notes to the bank, and demand gold in their place; for this the bank must always be prepared; and, in consequence, there must be always ready for immediate issue a certain amount of gold, let us suppose not less than one-third (it may be a great deal more) of the whole amount of bank paper in circulation. The bank of England, therefore, as long as the prohibition against one pound notes exists, cannot by any possibility extend its issues of other paper beyond a certain amount; (even supposing them so inclined;) because, if they did, such paper might and would quickly return to their hands, and they must have gold to give in exchange. If, therefore, they issued a greater amount of paper than was required by the wants of the country, such an over-issue would only oblige them to have in store a greater amount of bullion, at a certain expense, to be prepared for the exchange. Circumstanced, therefore, as the bank of England is at present,

it is restricted (by not being allowed to give one pound notes) from exercising too great an influence over the currency, and will naturally only issue such an amount of paper, in five or ten pound notes, or in those of a higher denomination, as the wants of the population demand; in other words, as much as will suffice to fill the channels of circulation through the country.

Now, supposing that the bank of England were possessed of the power of issuing one pound notes, although these one pound notes might, and in some cases would, be converted into gold, by the population in the immediate vicinity of the metropolis, or of those towns where branches of the bank of England were established; yet such an exchange would become, to the mass of the population in the country, a difficult operation; and from the greater facility and security of transmitting one pound notes than sovereigns, the result of an issue of one pound notes must be, that they would be rendered the common circulating medium of the country, nearly to the exclusion of gold. But another and a much

more important result would be, the power that would thereby be obtained by the bank, of extending their issues of paper as they thought proper,—that is, to extend or restrict the circulating medium of the country; *an influence too considerable* for any corporation or set of persons (except the legislature) to hold: this power, when formerly possessed by the bank of England, was exercised with discretion and judgment, yet it ought always to be regarded with jealousy by the public opinion of the country; as enabling those, by whom it is used, to raise or lower the value of money, by diminishing or increasing the circulating medium, or, in other words, of raising or lessening the property of every individual in the community, at pleasure; a power which, when possessed by the bank, was looked on with jealousy, and caused considerable dissatisfaction in the country, and, if again exercised by that establishment, would occasion much more.

Nearly the same observation will apply to country banks. If these provincial establish-

ments were enabled to issue promissory notes of one pound, they might increase the circulating medium beyond the amount required by the population. The result of which would be, the lowering of the value of such circulating medium, or a depreciation in the value of money, and an apparent rise in the price of every article of consumption, such as took place during the war.

The manner in which such an over-issue of paper takes place, when provincial establishments have the power of sending forth their one pound notes, seems to be as follows:—if the country banker is aware that he can give his one pound notes in exchange for the five or ten pound notes he issues, he will be much more liberal in his advances than he otherwise could be; for whenever these five or ten pound notes return to him, he replaces them in his drawer or on his shelf, and gives in exchange an equivalent in one pound notes, thereby putting into circulation five pieces of paper instead of one.

The moment, however, that a provincial es-

tablishment is unable to issue one pound notes, it is evident that a certain amount of gold must be kept in reserve, sufficient to answer the demands of those who desire to exchange whatever five or ten pound notes they may have. From this circumstance, when the country banker cannot issue one pound notes, he is necessarily restricted in the amount of the issue of his paper, and consequently the circulating medium in his district is not so extended as if he possessed that power.

In regard to country banks, the provision made by the act, if not improperly an exemption, was an accommodation of great importance. These banks were relieved from the necessity of paying cash if they tendered bank of England notes, a supply of which was attainable without the uncertainty and loss so frequently attendant on the requisition of coin. A stock of notes could be procured at any short notice, in exchange for the mercantile acceptances or other securities, in which the funds of country banks are usually vested ; and the latter, thus delivered from much

expense and anxiety, were enabled to lessen greatly their reserve fund, and consequently to extend their discounts. \*

For example, if a country banker is permitted to issue promissory notes of one pound, he will more readily part with, say one thousand pounds of his five and ten pound notes on loans, either on the personal security, or on the farming stock of some of his neighbours ; because when these five or ten pound notes return to him, which they necessarily must, probably in a short period, he takes from his drawers one thousand one pound notes, which he gives in exchange, and replaces the fives and tens in their former quiet state ; unless, therefore, the neighbourhood have some suspicion of the country banker's honesty or solvency, these one pound promissory notes of his remain in circulation, but being a forced circulating medium not wanted by the country, they tend to create a fictitious capital, and of course to lower the value of money ; or, in other words, to raise the price of every commodity

\* Lowe on the Bank Restriction Act, 8vo. Edit. p. 101.

that is marketable. Now when the country banker does not possess the power of issuing his one pound promissory notes, he will pause before he makes his loan or his issue of the five and ten pounds to the amount of one thousand pounds, because he is well aware they may come back shortly to be exchanged, and he must have gold, to a certain, if not to the whole, extent, to give in return; and the rate of five per cent. per annum, or even more, on the thousand pounds, does not sufficiently compensate for the expense incurred in obtaining the gold, that is, the interest on the advance whilst it lays quiescent in his chest, the insurance on carriage, and the attendant risk and responsibility. The provincial banker will consequently restrict his issue of five and ten pound notes, and under such circumstances becomes less lavish of his paper: the result is, that the channels of the country circulation are not overcharged. When this is the case, the value of money rises to its proper level, and the price of commodities exchangeable for money falls proportionably in value.

Nearly the same result takes place, if the country banker's notes are payable in the metropolis, as he must place an equivalent in his correspondent's hands in London, to answer his notes on demand : but when the issue of one pound notes was permitted, the arrangements of the provincial establishment in the metropolis were different. Thus it appears, that the prohibition, to give promissory notes of one pound, on the country banker, has the effect of teaching him prudence, and prevents his throwing on the neighbourhood superfluous paper, and creating fictitious capital, an object of great importance to the community. Having now stated the importance of the question, let us proceed to a consideration of the subject under the heads into which it has been divided.

## SECTION I.

*On the issue of One Pound Notes by the Bank of England.*

AN extension of the currency by the issue of one pound notes, must in the end affect the price of commodities, by diminishing the value of money. Whenever a fictitious capital can be created at pleasure, it is evident that the value of money, if measured by such paper currency, falls in value. When money is measured by its proper standard, gold, as long as gold is not higher in value than the currency, that is, as long as gold sells in the market for no more than the Mint price, \* then the currency is not depreciated; when a paper circulation becomes more

\* £3 17s. 10½d.

extended than it ought to be, gold appears to rise in value, when in reality it is only the paper currency that is depreciated in that proportion.\*

As far as the interest of the bank of England is concerned, there is no doubt that the issue of one pound notes is profitable to that corporation. This is so evident, as scarcely to require comment. It was said, that if the bank of England were empowered to give promissory notes of one pound value, such notes would in time supersede the price of gold, and would be dispersed through the country from the greater

\* It should seem that money, destitute of all value as a commodity, ought to pass for none in all free dealing subsequent to its issue. The notes of what was improperly called Law's Bank, and the assignats issued during the French Revolution, were never regularly called in or cancelled.

The very creation of paper money, with forced circulation, occasions the disappearance of metallic money: for as it is made to pass at par with the paper, it naturally seeks a market where it can find its true level of value. The paper money is thus left in the exclusive possession of the business of circulation. The paper money of England, consisting of the notes of the bank, has been kept at par with specie, simply by the limitation of the issues to the demands of circulation.—*Say's Polit. Econ.* 8vo. vol. I. p 485.

facility and security of transport, and must become the common circulating medium of the community. A profit in such a case necessarily arises to the bank, from the paper in circulation, which does not at present exist to the same extent, when sovereigns fill the place that would in such a case be supplied by one pound notes: as far, therefore, as the bank of England is concerned, it cannot be doubted that they would be gainers by such a permission.

As to the present effects of the bill, (resumption of cash payments,) we can trace none of consequence, except the partial rise in the value of gold throughout Europe generally, consequent on the large purchases of the bank of England; while, as to its permanent effects, we can trace, so long as peace lasts, hardly any one worth notice, except an obligation on that establishment to keep a large reserve in cash, and consequently to reduce its annual profits by four hundred thousand pounds, or whatever may be the charge of providing and keeping that deposit. \*

\* Lowe on Currency and Exchange, p. 32, App. 8vo. Edit.

Much, however, to the credit of those by whom the affairs of that corporation are managed, (the writer, having no connexion whatever with the bank, or the directors, thinks he may be allowed to make the remark), they do not appear to have been anxious to retain such a power, (except in their petition to the House of Commons in 1819, against Mr. Peel's bill,) nor do they appear to have been insensible of the great importance of the question to the best interests of the community.

The obligation now existing on the bank of England to pay its notes of five and ten pounds, and those of higher value, in gold instead of one pound notes, is important: it has been shown as affecting the depreciation of the currency, but is equally so as affecting the exchange with foreign countries. In the report of the Bullion Committee, \* a very intelligent witness, used to extensive discounts, gives the following evidence.—  
 “ Question. Do you know, in point of fact, whether such transactions as you have now described,

\* Page 124.

were in practice previous to the suspension of cash payments by the bank? Answer. Yes, they were.—Do you know whether they were practised to a similar extent? No, they were not.—In what proportion compared with the present time? I cannot form an exact criterion.—Can you state to the committee the cause of such difference? I believe it to be on account of the increase of country paper, and also bank of England paper.—Can you form an idea, what would be the consequence of reducing the amount of the circulating paper in the country, by refusing to discount so largely as at present? A more steady and regular price of all commodities, with more confidence in all money transactions.”

Now, as long as the bank continues to be obliged to pay its notes of above one pound value in gold, no more paper can be issued in discounts, or in any other manner than is required by the wants of the country; because if more paper were issued than was requisite, such paper would again shortly return to the bank to be

exchanged for gold, so that in proportion as an issue of paper took place, a proportionate quantity of gold must be hoarded in the cellars of the bank, which cannot be done without additional expense.

The prohibition of issuing one pound promissory notes by the bank of England, serves also as a perpetually acting check on that establishment,\* not to extend its issues of paper beyond a certain limit; and the purpose is probably better answered by these means, than by any other that could be devised, and is attended with less inconvenience or loss either to that establishment or to the community.

\* "What then were the results distinctly attributable to the exemption act; and, in the first place, what was its effect on the rules followed by the bank of England in regard to its discounts? The effect was highly beneficial to that corporation: the directors were relieved by it from the necessity of watching continental exchanges, from the apprehension of a drain of metallic currency. The rules of discount became greatly simplified, and, after some years, the directors considered themselves at liberty to issue notes to whoever tendered bills possessing the requisites of solidity and shortness of term."—*Lowe on the Bank Restriction Act*, 8vo. edit. p. 101.

If the bank, on the contrary, were possessed of the power of issuing one pound notes, there is little doubt but, at times, some temptation or other might occur, by which that establishment would be induced to make an issue of paper greater than the state of the country, or the real demands, or wants of the community warranted: the directors of the bank in such a case would find it impossible to judge and decide impartially amongst the number of claimants for the discount of commercial paper, who in the course of business might apply to them, if the issue of bank paper was not controlled by the salutary check of paying in gold. Whenever a redundancy of paper takes place, the result has been, and may naturally again cause, an unfavourable turn in the exchange with foreign countries.

Some writers on political economy still continue to attribute the fall in the exchange to the demand for foreign corn, and to other causes independent of a depreciated currency: yet on reference to the tables of exchange with foreign countries, it appears usually to have been favour-

able to this country, when the mint price of gold and the market price coincided; and to have turned against or in favour of Great Britain as the market price of gold was above £3. 17*s.* 10 $\frac{1}{2}$ *d.*; or at that price. The following remark on the subject will suffice to show how much foreign exchanges depend on the currency. From the year 1808 to the year 1814, the fall in the exchange began at eight or ten per cent., and increased to twelve, fifteen, and twenty-five, and eventually to nearly thirty per cent.\* From 1819, when the resumption of cash payments was determined on by the legislature, the exchange rose to par, and has continued in our favour ever since that time. In answer to this it might be said, that during the war the exchange was increased against us by other circumstances besides the depreciation of the currency: this might be the case, yet the depreciation of the currency was the great and leading cause. It appears that in 1817 and 1818, years of profound peace,

\* Lowe's Historical Sketch of our Exchange, p 92, 8vo. edit.

the exchange lowered to three, four, five, and eventually six per cent.\* How can such a depression be explained except from the state of our currency.

Although at the termination of the war the bank of England was not restricted from issuing one pound notes, yet the directors of that establishment, foreseeing the measure they would in all probability be called on to adopt by the legislature, took care, after that period, not to be too lavish of their paper, the result of which determination was—a restriction in the issue of their notes and in their discounts: the consequence became apparent in the favourable turn that took place in the foreign exchanges with this country, even before the bill for the resumption of cash payments occupied the attention of Parliament, and before the resolutions consequent on that investigation were adopted by the legislature. †

\* Lowe's Historical Sketch of our Currency, p. 93, 8vo. edit.

† It was in 1800 that the effects of a non-convertible paper became distinctly visible in the state of our exchanges. The

It was in some measure by this restriction of issues, wisely adopted at that time by the bank, in order to prepare themselves and the country for the gradual resumption of cash payments, that the pressure then felt by the agricultural part of the community was occasioned, for which at that time the bank was so much, and so unfairly blamed. No alternative remained to the bank, but by a gradual diminution of the circulation of their paper, to prepare themselves and

wants of the merchants drove them to the bank for discounts, and their demands were supplied with a confidence which the directors durst not have exercised had they been liable to pay in specie. This accommodation, far from beneficial in its remote consequences, served at the time to lessen to the public the evils arising from the subversion of the exchange, and the subsequent depreciation of our paper (between three and five per cent.) was hardly perceived either by us or by foreigners. The change most open to observation was in our currency: our guineas had now for the most part gone abroad, and our small note circulation, insignificant during 1797, 1798, and part of 1799, became augmented in 1800, 1801, and 1802, to four millions, exclusive of the small notes of our provincial banks.—*Lowe's Historical Sketch of our Exchange*, 8vo. edit. p. 85.

the country for the resumption of cash payments, an unavoidable measure if an intention existed to keep faith with the public, or to preserve inviolate the credit of the country.

## SECTION II.

*On the Issue of One Pound Notes by Country Banks.*

FROM the remarks made in the former section on the issue of one pound notes by the bank of England, it is evident, that, if such a measure were ever permitted by the legislature, it must be one of absolute necessity, which is unlikely to happen, and without which it would never be sanctioned by public opinion.

If permission to issue one pound notes were granted to country banks, the result would be equally, if not more injurious, than if granted to the bank of England. In the latter case, the issue of these notes would be regulated by a set of men who were accustomed to business, well acquainted with the danger of such a measure, and who might be expected to be cautious from

the responsibility attached to them, and the great consequence and influence of the establishment over which they presided.

In country banks the case would be entirely different. The object of the partners of each establishment would naturally be, to force into circulation as much of their paper as they possibly could, either to drive out of the channels of circulation the paper of a rival bank, or to realize what they might consider to be a legitimate profit. Sentiments such as these are so common to human nature, that no partners of a country firm could be blamed for entertaining them, or for acting under their influence. Allowing this to be the case, no doubt can exist, that, in the event of country banks being again permitted to issue one pound promissory notes, these notes would again be issued to the greatest possible extent. The natural consequence of this must be a depreciation of the value of the currency, or, in other words, a rise in the price of marketable commodities; a result similar to the one mentioned where the bank of England

was concerned. To make this appear quite evident, the following reflection will suffice. If a country bank is firmly established, if its partners are considered as wealthy and respectable men, if its engagements are completed with punctuality; such an establishment must necessarily obtain the confidence of the neighbourhood, and its promissory notes will be received by the population in the vicinity with as much readiness as those of the bank of England: the result of this confidence naturally is—that considerable facility is experienced by a provincial establishment in throwing their paper into circulation. Such an establishment can easily advance money to the agriculturist, or to the master manufacturer. Whenever the five and ten pound notes issued return, as they necessarily must in a short time, they are exchanged for one pound notes, and the only difficulty or trouble consists in exchanging a number of five and ten pound notes (say to the amount of one thousand pounds) for so many one pound notes; the clerk places the former on a shelf, and from another shelf

takes the latter ; the operation is merely an exchange of paper ; such was the manner of proceeding by provincial banks previous to the resumption of cash payments. The facility thereby afforded to country establishments of increasing the circulating medium on a fictitious capital, is apparent ; unless a run took place, the one pound notes continued in circulation ; these notes, if the country banker was not possessed of equivalent assets, were evidently fictitious capital.

Since the abolition of the one pound country notes, the case is entirely different. To be enabled to meet the demand for gold in lieu of their paper, it has been observed, each country establishment must be provided with sovereigns, say one-third, or one-fourth, of their issue, either more or less. Supposing a country establishment were to throw into circulation, say three hundred thousand pounds of its notes, they must necessarily keep in their coffers nearly one hundred thousand pounds in sovereigns. To obtain these sovereigns some security must be given,

as well as a certain interest paid, which, together with the risk, of loss from various causes, the insurance, the carriage, and other drawbacks, nearly balance the profit made on the issue in paper of the entire sum before mentioned ; which consequently becomes a transaction of little profit, as must be the case whenever paper issued, to any extent, shortly returns for payment, and the payment is made in gold.\*

Whenever the issue of paper is regulated by a power of exchanging it for gold, no extent of the issue of such paper takes place beyond the capital in existence, and beyond the real demands of the population ; the result of which is, that prices of commodities find their true level : this cannot be the case when a fictitious capital is

“ Experience, however, shows, that neither a state or a bank ever have had the unrestricted power of issuing paper money, without abusing that power ; in all states, therefore, the issue of paper money ought to be under some check and control ; and none seems to be so proper for that purpose, as that of subjecting the issuers of paper money to the obligation of paying their notes, either in gold coin or bullion.”—Ricardo's *Pol. Econ.* Chap. xxv. p. 507.

forced into circulation; another injurious effect also arises, by establishing a monopoly in certain commodities, whence the price of an article, perhaps one of the first necessity, is enhanced to the public, and the profit arising from the extra charge does not tend to enrich either the agriculturist or the manufacturer, but the speculator, who by means of such fictitious capital is enabled to keep up commodities for some time from going into the market, except at a higher price than a fair profit would justify.

## SECTION III.

*On the Consequences of again allowing the Issue of One Pound Notes, if Great Britain were involved in a War.*

THE *probability* of Great Britain engaging in a war is, in the present state of affairs, not great. This country would not be the aggressor, because (putting out of the argument all questions of moral principle,) no equivalent could be obtained by engaging in hostilities that would make up for the heavy consequent expenditure. The last French war was commenced by this country to check the revolutionary principles of France from spreading here, and was subsequently continued from the apprehension entertained of Napoleon's power and ambition. A similar state of affairs on the continent of Europe may not occur again for centu-

ries ; and even if hostilities again took place, this country could not expect to monopolize the carrying trade of the world ; nor can the landed interest reasonably imagine their rents could be raised, or that landed property would be sought after as it was during that period. Although a war is improbable, there is no impropriety in considering how far this country would be in such a case affected by the use of a depreciated currency, or, in other words, by an issue of one pound promissory notes, either by the bank of England, or by country establishments. From what has already been stated in the observations made on an issue of one pound notes by the bank of England and country banks, the result inevitably must be, a depreciation in the value of money, and a rise in the price of marketable commodities. It has also been observed, that the result of such a measure must ultimately lead to the disappearance of gold from the country, and also an unfavourable turn of the exchange with foreign countries. To these results from an issue of one pound notes may be added a more

important argument than any other that has yet been adduced, which is, the violation of public faith, and the fraud practised by the country on its creditor, to whom, (when the loans were contracted in time of war,) a solemn pledge was given, that as soon as it conveniently could be done after the return of peace, the metallic currency should be restored. Scarcely can it be questioned, that, if permission were again granted to issue one pound notes, the exchange must become unfavourable to this country, and the gold coin would disappear as a matter of course, as it did during the continuance of hostilities. Now, in the event of a war being entered into by this country, it is quite evident, that to enable us to keep up a navy, such as would be expected by the people, such as would be required for the preservation of our commerce and maritime superiority, supposing that a maritime war only was attempted ; it would be necessary to enter into a heavy expenditure. This expenditure could only be in a great measure supplied by loans. On what terms could loans be obtained,

if faith had been broken with the public creditor? if he perceived that this nation was unable, after fifteen years of peace, to fulfil its solemn engagements and return to a healthy currency; or if, on making the attempt, after a few months of privation, and of pressure on some particular classes, we were so pusillanimous as to give up the principle on which the attempt had been made, at once declare ourselves incompetent to perform our engagements, and again permit the use of paper instead of bullion! The injury occasioned to the credit of Great Britain amongst other nations can scarcely be calculated. Whatever diminishes the confidence placed in the legislature of a people, not only affects the nation collectively, but has a tendency also to lessen private credit, and to diminish that confidence between man and man, both necessary and essential to commercial transactions. If confidence had not been placed in the faith of Parliament by the people during the war, if money had not been advanced on loans contracted on public credit, how would it have been possible

for this country to make the exertions that it did, in fitting out and keeping up numerous fleets, in sending forth and supplying armies, and in the subsidies to foreign powers that were advanced.

To this it may be objected, that if hostilities are not likely to take place, of what import is public faith, or such a slight infraction of it, as allowing the issue of a paper currency. The answer will be, that, putting aside the violation of all moral principle, the greatest palladium of the prosperity of Great Britain is its national faith, which, as long as it continues pure and unbroken, as it does at present, must and will preserve this country, not only the most flourishing, but the most powerful in the world.

It has been at times hinted, that the public debt was incurred in a depreciated currency, an objection which has been satisfactorily answered by an acute observer of the public funds,\* it may not perhaps be altogether out of the way to give the publicly recorded sentiments of a statesman well acquainted with the internal po-

\* Mr. Mushett's pamphlet on the Currency in which the debt was contracted, 8vo.

licy of Great Britain, and who had deeply considered the question.—“ Should England, the greatest commercial nation—the nation in which commerce and political economy were best understood, confer for the first time on any body of men, whatever may be the purity of their motives and conduct, the power of making money according to the suggestions of their own interest, or what they conceived to be the interest of the public? Policy, good faith, and common honesty, called on the state to return to this ancient standard (cash payment) of value, if possible.

“ It might be said, that the debts to the public creditor were contracted when the country was under different circumstances; but such an argument would apply at all times. The engagement was to pay according to a certain standard; and those who engaged to do so were bound by that engagement, if they meant to act honestly. The consequence of departing from the standard was not only objectionable as between the state and the individual, it must also operate on the engage-

ments between every individual debtor and creditor in the country.” \*

\* Lord Liverpool's Speech on the Report of the Bank Committee, 1819.

## SECTION IV.

*Result of such a Measure, if Great Britain  
continued at Peace.*

THE first object of the Legislature in a civilized state, in times of peace, must be to promote whatever measure tends to the welfare of the community.

It is of the utmost importance to our interests, both individually and collectively, to our prosperity as a nation, that manufactured articles should be produced at a rate so cheap as to undersell those of other nations in foreign markets. There is no necessity to expatiate here as to the results that would ensue to Great Britain, if her pre-eminence in the supply of foreign markets were lost, if she was undersold by the cheapness of other manufactures, or if she became unable to supply the world with the produce of her industry in commodities of every description. Although such an event, we must

hope, is far distant, yet the paramount duty of the Legislature is to guard against the possibility of its occurrence ; and the most certain means of so doing are to enable the master manufacturer to produce his commodities in the cheapest possible manner. This can only be done when the prices of the absolute necessities of life (which more or less regulate wages) come down, as nearly as may be, to those of other nations : the only way to effect this desirable object must be, not to allow the price of the necessities of life to be enhanced by the over issue of paper, which occasions a fictitious capital, and increases the circulating medium beyond the real wants of the population. Perhaps this may be an unpopular argument, and may not be agreeable to the agriculturist ; but surely that interest which embraces nearly the whole of the upper class is sufficiently informed, to be aware that the price of the necessities of life could not by any means be kept up as it was during the war ; and that any attempt to keep up the price of produce of land by an extension in the issue of paper, and by the extinction of the use of the real measure

of value, (gold,) could only be attended with temporary relief, and cannot but materially injure the national credit, and every other interest, and every other class of the community, without at length being able to accomplish the desired object, that of keeping up of high prices and of high rents, to benefit the landlords.

If this country continued in a state of profound peace, and the Legislature, under circumstances of severe pressure, sanctioned a paper currency, it would be an act of political folly, which no enlightened nation could either tolerate or submit to. Even if the mass of the community desired it, if popular clamour called for it, which is supposing that which is unlikely, there can be no doubt, if such a system were adopted here, and not followed by other nations on the continent, that the injury thereby occasioned to the manufacturing interest, and, it may be added, to every part of the community, would be great indeed: the alteration in the exchange would be so considerable, and the inconveniences so severe, that the urgency of the case would compel public opinion to call on the Legislature again to have recourse

to cash payments; and then all the distress and changes of property that has followed the unavoidable measure of payment in cash would again occur, with the additional loss and dissatisfaction of having given a blow to the public credit of the country, that might perhaps never be recovered.

Such is the imperceptible link that binds one interest or class in the community to another, that if the mass of the people suffered by a paper circulation, the agriculturist would ultimately be injured, although a temporary rise in the value of produce were obtained. If at this moment, during a profound peace, which has continued for fifteen years, a paper currency were established, it would be an acknowledgment, that Great Britain was unable to pay in gold, or fulfil her engagements with the public creditor. The funds would feel a depression in consequence: should the fall in the funds prove considerable, which might be the case at no distant period, a scarcity of money would be the result. The loans made on mortgage to the landowner

would be called in by his creditors : where could he obtain relief but by submitting to pay an exhorbitant and usurious interest ? Many would keep money unproductive for a time, in order to take advantage of the low state of the funds : those who had funded property, who had not sold out when the funds were high, would not sell out when they were low, and thus the money advanced to the landholder, would be called in, without his having the means of obtaining it elsewhere. Besides, supposing a depression of the funds to take place, who would feel an inclination to sell out to purchase landed property ? Thus would the landowner suffer, both in being unable to obtain money at a fair and rather low interest, which he can at present ; and by a depression of the funds, the value of the fee of his land would be diminished in the same proportion. If it be observed, that during the late war, although the funds were low, yet land was at a high price, and that the same result might occur again, the answer presents itself at once. During the late war, the continents of Europe and America

were not open to British enterprize and capital ; the means of investing money in foreign securities were then little known ; no security for personal property existed on the continent, added to which, great danger was apprehended from foreign invasion, which caused many persons to distrust the funds, and to invest in land. At present the case is wholly different. A depreciation of the currency, by an issue of one pound notes, must prove a serious injury to all landlords who have granted long leases, supposing the result to be, that the value of money lessened twenty-five per cent. ; (this supposition is made only on the assertion of those who maintain the currency, by the Cash Resumption Bill, has been raised to that amount). The owner of land, of houses, or of ground rents, who had granted long leases, who was to receive, say one hundred pounds a year, would nominally receive one hundred pounds ; but, being paid in a depreciated currency, would in fact only receive seventy-five. The same result would take place between every debtor and creditor in the coun-

try ; the confusion and loss of property, and private injury thereby inflicted on innocent individuals, may be imagined. Any further attempt made to tamper with our currency, shakes the stability of our public credit, and the security of the funds ; (the palladium of British power and liberty ;) the consequence must be, that British capital would flow to the continents of Europe or America, where a higher rate of interest could be obtained, and the landholders in this country would then be left without the facility they now have of obtaining money or of selling their property, and without the consolation of having acted in the manner to deserve commiseration.

So far therefore, from being benefited by any measure that would depress the funds and injure public credit, the landowner would be incomparably worse off than he is at present : he cannot raise rents and depreciate the currency, without injuring the value of land by depressing the funds.

## SECTION V.

### *Additional Remarks.*

THE temporary profit that might be received by the landowner from an increased value of the produce of land, and the consequent ability of the tenant to pay his present rent, or a higher one, seems the only result that could arise from a depreciation of the currency. Even this advantage, if it may be so called, could not be permanent, as already shown in the preceding section, and would be counterbalanced to the agricultural interest by the fall of the funds, and its concomitant, the scarcity of money. There can be little doubt that the resumption of cash payments has been a severe blow to the landed interest in general, and to the great landowners in particular. Every one must sympathize with those who (by any circumstance, even by an event that followed from the common course

of things, and which must and ought to have been foreseen) are deprived of part of their income. At the same time, it ought not to be forgotten, that such income was, for more than twenty years, nearly doubled by this increase and other causes arising from the suspension of cash payments; that the suspension of cash payments, from the continuance of the war, lasted much longer than could ever have been anticipated; and that, after all, the income of the landed proprietor is only returning to its former standard previous to that period; and that the price of most articles of luxury and of manufacture, are now sold at a lower price than they were at that time, is unquestionable. So far therefore as the proprietors of land are concerned, who have long possessed their estates, they are, in point of rental, in the same situation as their fathers were a generation back, or as they were thirty years ago. If their estates are more burdened at present with encumbrances than formerly, this can only arise from their own improvidence, or from the imprudence of those of whom they inherit-

ed their property ; which, being the act of private individuals, ought not, and cannot be remedied by any act of the legislature. The great error of the landed interest seems to have been, that they imagined, because the rent of land had increased progressively for eighteen years, it must continue to augment in the same proportion : under such circumstances, the old landed proprietors cannot affirm they have any reasonable ground of complaint.

The owners of land, who have become so of late years, that is, those who purchased landed property during the war, cannot surely complain at the resumption of cash payments ; because they purchased under the distinct information and knowledge, that the legislature would return to cash payments after the cessation of hostilities : they laid out their money therefore in land as a good investment, well aware of what would occur whe peace arrived. These individuals cannot surely turn round, accuse the legislature, or find fault with the resumption of cash payments, because the capital they thought proper to in-

vest in land, has not turned out so profitable a speculation as was anticipated by them ! Fortunately, it happens that those of the upper class, those whose extensive capital enabled them to purchase landed property, are likely to suffer less privation from a curtailment of income, than the middle and lower classes, to whom every shilling of income is available and of the utmost importance for the absolute support of themselves or their families. Most speculations in land were made by the first of these classes.

Some difficulty arises in pointing out any other class in the community whose interest can in any manner be promoted by an issue of one pound notes, and a depreciation in the currency. The rise in the price of the necessaries of life must be attended with suffering and privation to the lower class, and to the middle class, whose incomes arise from commerce, manufactures, the funds or other property not dependent on produce, and to annuitants of every description.

Speculations of all kinds are encouraged by a fictitious capital, created by an over issue of

paper. Certainly, the permanent happiness as well as industry of a population in any community, is better secured by a metallic than by a paper currency : the former is not likely to vary materially for a considerable time ; for although the mines of silver in the various parts of the world increase their produce, a greater demand arises in every state for silver as civilization and wealth increase, which keeps up the standard price, by creating a greater demand for domestic use. Some writers \* seem not to make sufficient allowance for this, and to imagine that in the exact amount the silver is found, it depreciates in value ; the same mistake was made by Locke many years ago, which is corrected by a modern writer. † Were the quantum of supply alone to determine the value of a commodity, silver would stand to gold in the ratio of one to forty-five ; for silver and gold are produced by metallurgy, as forty-five to one. ‡ But an accurate

\* Quarterly Review, No. 83. p. 243.

† Say's Pol. Econ. 8vo. Edit. V. II. p. 65.

‡ Humbolt's Essai Pol. Sur la Nouvelle Espagne. 8vo. Tom. iv. p. 222.

writer observes, the demand for silver is greater than for gold : its uses are far more general and far more various ; and thus its relative value is prevented from falling lower than one to fifteen. \*

An impression seems to have been made on the minds of many, and to have gone forth in the country with some plausibility, that as the income of the landowner is lessened by lowering the price of produce, his means of purchasing manufactured commodities become more limited ; and that these owners and occupiers of land being the leading interest in the country, to lessen their means is to lessen the demand for manufactured articles of every description, as well as for every other commodity.

Let us for a moment consider, whether there is any truth in such a statement. For the sake of argument, let it be granted that, by the suppression of one pound notes, and the real resumption of cash payments, which measure was finally brought into effect in April last, the value

\* Say's Pol. Econ. 8vo. Edi. V. II, p. 66.

of produce and the rental of land was diminished twenty-five per cent. This being the case, it follows as a matter of course, that the landowner has lost one-fourth of his income, and that his expenditure is lessened in the same proportion. So far every one must admit the fact. To say, however, that this diminution of income in the landholder injures the manufacturer, is a fallacy; because the loss of twenty-five per cent. on the price of produce becomes a gain in exactly the same proportion to the purchaser of produce, who is thereby saved twenty-five per cent., and is consequently enabled to lay out twenty-five per cent. more out of his income in the purchase of manufactured commodities. The reason that the excise and customs have not proportionally fallen off during the worst periods of agricultural distress is therefore apparent. It seems doubtful, in fact, whether the diminution of twenty-five per cent. on the produce of land does not enable that part of the community not connected with agriculture to lay out a greater amount in manufactured commo-

dities. For example: If A, possessed of an income of ten thousand a year, has his income reduced to seven thousand five hundred, and that the difference, two thousand five hundred, is added to the incomes of ten persons of the middle class, and of a hundred persons in the lower class, from the low price of bread and meat and other necessities, it is quite evident these one hundred and ten individuals will want, consume, and purchase, a greater amount of manufactured and excisable commodities than the individual A could consume with his additional income of two thousand five hundred pounds. As far therefore as the manufacturing part of the community is concerned, or the consumption of excisable commodities is considered, there can be no doubt that both are benefited by a reduction in the price of the necessities of life. The following official document confirms this opinion.

“ The complaints of the farmers and others, in the numerous petitions referred to the Committee, appear but too well grounded. Though the pressure thus caused on the farmer has materially

affected the retail business of shopkeepers in country towns, it appears by official returns that the consumption in the kingdom at large, of the principal articles subject to excise and customs, increased in 1820, when compared with the average of the three preceding years; as also that the quantity made of our chief manufactures has on the whole received an increase.”\*

Far is it from the intention of the writer of these few cursory remarks to enter into the extensive field of agricultural distress, or to suggest any remedies—it would be an attempt to cleanse the augéan stable. The existence of that distress is not here denied or entered into; all that is contended for, is, that it cannot be alleviated by a breach of public faith, or by the sacrifice of the best interests of the community; and further, that a depreciation of the currency, by lowering the funds, would be ruinous to those who had borrowed money, or who were desirous of selling their property.

In the event of these one pound notes being

\* Abstract of Agricultural Report for 1821.

again issued, no doubt for a moment can be entertained that the permanent currency must be paper, which in fact would become the circulating medium of the country. Such an issue being again permitted, is tantamount to a declaration of insolvency by the bank of England: no matter on what grounds or on what pretence the issue took place, such would be the impression on the public mind, both in this and other nations.

The evils arising from a fluctuation in the currency are apparent; the landholder suffers by a change equally with the rest. An intelligent writer observes, "It is not a little remarkable, that several of the counties, such as Norfolk and Northumberland, in which our husbandry is most improved, are by no means our most fertile districts naturally. To what then are they indebted for their superiority? To a cause that there is no good agriculture without leases.—In what other way can we explain the high rents paid in a country in general so little favoured in soil and climate as Scotland? The objections of

our landlords to long leases are various, arising partly from the habits of their predecessors; partly from a reluctance to part with the command of their property for a number of years; but more than all, *from the uncertainty of the value of money*. During the war this uncertainty was of very serious import: at present it is removed, as far as regards landlords, by the return to cash payments; and the difficulty now is, to induce a solvent tenant to take a lease. To both parties, therefore, the fluctuation of our currency, even when metallic, is replete with anxiety.”\*

There seems no probability of having an accurate measure of value, unless gold be the standard by which the currency is regulated: all writers on the subject seem to agree on this point. “A currency is in its most perfect state, not when it consists of paper money, but of paper money of an equal value with the gold which it professes to represent.”† “It is an

\* Lowe on Money Contracts, p. 284, 8vo. edit.

† Ricardo's Political Economy, ch. xxv. p. 507.

acknowledged truth, that the precious metals, as they are at present procured and distributed, are an accurate measure of exchangeable value, at the same time, and in the same place. The great fall in price of commodities may arise from other causes beside the resumption of cash payments.”\* It is justly stated, that the agreement of the market and natural price of all commodities depends at all times upon the facility with which the supply can be increased or diminished, and gold is frequently noticed as among the commodities where this effect cannot be speedily produced. Consequently, if by great and sudden improvements in machinery, both in manufactures and agriculture, the facility of introduction were generally increased, and the wants of the population were supplied with much less labour, the value of the precious metals compared with the commodities ought greatly to rise.”† The following statement confirms the assertion :—

\* Malthus, Political Economy, ch. ii. sect. v.

† Ibid.

“ A fall of money price has of late taken place in several countries, and in a great variety of articles: it applies to the corn, the cotton, the rice, and the tobacco of the United States; to the sugar and rum of the West Indies; to the flax, &c. of the continent of Europe. In all these articles the proportion of fall has been equal, in some more than equal, to the fall in the price of corn in England; although, in commodities so different from corn the same causes cannot be considered as operating. So general a depression of money price can be explained only by the derangement produced by the convulsions of the last thirty years.” \*

Whenever any important measure is in contemplation, the usual mode in the ordinary occurrences of life seems to be, to weigh the results on one side against those on the other, and to adopt that course which is most beneficial and attended with the least inconvenience. The same course may be followed in the present in-

\* Agricultural Report of 1821.

stance, and the benefits and disadvantages arising to the country from a metallic or a paper currency may be recapitulated.

The results of giving up a metallic currency, and adopting one of paper, it has been shown, are most important, of the greatest consequence to the community, and more or less to every individual of which it is composed.

It is evident that a paper circulating medium would raise the necessaries of life, that the value of money, as also the value of every commodity, would be in a state of constant variation. That the facility of obtaining credit on fictitious security, and thereby of increasing the means and the desire already so prevalent for speculations of every kind, would eventually bring back a recurrence of events in the commercial world similar to those that took place in 1825, and at subsequent periods. Other evils, or, to use a milder term, other disadvantages, have been enumerated. Amongst these the most important is the mortal stab that would be inflicted on national credit. The great palladium of our national prosperity

is public faith, which sets an example to the moral principle of individuals, which has placed this country in the proud and commanding situation that she holds amongst the nations of Europe and of the world. It is this which has enabled us to contend successfully against the most gigantic power that has appeared for centuries in Europe; by means of which our fleets have been equipped, our armies supplied, and both have achieved those deeds which could not otherwise have been effected. Public credit enabled the legislature, by a single vote, without imposing an additional shilling of taxes on the people, to raise at once the extraordinary sum of thirty-six millions,\* to meet the sudden exigency that had arisen, and the political consequences that were expected to follow the return of Napoleon. The advantages of national credit are such, that if this nation were involved in a war, (which Heaven forbid!) the legislature would be enabled to raise on loans sums sufficient to set at defiance the power of the world combined against us.

\* Vide vote of the House of Commons in 1815.

Far is it from being intended to convey an impression, that loans of such a description would be politic or proper; all that is meant in this sentence is to show the vital importance of public credit, not only to the welfare, but to the security and political consequence of this country.

The next injury in importance that would arise to the prosperity of Great Britain by the issue of one pound notes, would be by raising the prices of the necessaries of life, (not, however, to the great extent supposed,) which, as already observed, would have the effect of increasing the price of our manufactured commodities in foreign markets, and therefore of rendering the competition of the foreign manufacturer more likely to be attended with success, at a time when every exertion is making on the continent for that purpose. The utter inutility of the measure of again issuing one pound notes is evident, when the great amount of capital at present existing in the country, and ready at a moment to be applied to any purpose, on sufficient security, is taken into consideration. There cannot exist

a doubt, that whenever satisfactory security can be produced, the advance of capital to almost any amount may be obtained. The re-issue of one pound notes, therefore, could have no good effect in facilitating the means of obtaining money to those whose means and security were unexceptionable; and if money were advanced where no such security was to be found, it is clear it would be on speculation, and thus a fictitious capital, by the issue of paper, would be created, that must injure the possessor of *bonâ fide* capital, by creating a competition against him, and also serve as an encouragement to others not possessed of capital, to enter into speculations injurious to themselves, to the community, to the credit of trade, and to the fair profits of real capital.

Another result from the issue of one pound notes would be, the power that would thereby be conferred on the bank of England to increase or diminish the circulating medium of the country; that is, to increase or lessen the value of money, and, consequently, of property of every

description in the empire. Such a power is too great to be possessed by any individual or set of men in any country, be they ever so respectable, or ever so much inclined, (as the bank of England directors appear to have been,) to promote the benefit of the people, provided their so doing was not inconsistent with the duty they owed to their corporation. To enter here into the impolicy of allowing any corporation or body of men, no matter how respectable they be, to hold a controul over the property of the community, by increasing or diminishing the circulating medium at their pleasure, is unnecessary. Such would be the case, if the bank possessed the power of issuing one pound notes without restriction: often has it been already repeated, that no check on paper issues would then exist, which at present are prevented from extending too far by the alternative possessed by every individual, of obtaining gold at sight, in exchange for bank of England paper.

There is no necessity for repeating the observation on the turn of the exchange against this

country, that would take place in the event of our adopting a depreciated currency, or on the probable loss, from our manufactured commodities being excluded from foreign markets, if the necessaries of life were much raised in price. Every one is aware, who has been on the continent, that the state of things here is totally changed. That in France and Germany, in the Netherlands and other parts of Europe, an active population is turning its energies entirely to internal improvement, and to manufactures of every description. That if once they could undersell our countrymen, not only should we lose the supplying of Europe with our manufactures, but of the continent of America, and every other part of the world rapidly rising into wealth, and importance, where a desire, as well as the means, may be found of procuring our manufactures, provided we enable our population to have fair play in the markets, by being enabled to procure, at any easy rate, the necessaries of life, on which the wages of the manufacturer must in some measure depend. In times of peace, with a free intercourse with other countries, the

price of the necessities of life cannot with fairness be kept much higher in one country than in another.

The resumption of cash payments was a measure of vital consequence to the best interests of Great Britain—was a measure discussed and brought into effect by the ablest men in Parliament, and had the entire and warm support of every branch of the legislature—was a measure duly weighed, and its consequences fully considered: to prove this, it is only necessary to refer to dates. The abdication of Napoleon took place in April 1814; from that time hostilities with France ceased: next year he returned again for a hundred days, and in June 1815 all hostilities and every appearance of war entirely vanished. The resumption of cash payments bill was brought under the consideration of Parliament in 1819, four years after a permanent peace: gold was issued by the bank of England in 1821, and the final completion of the bill, by the suppression of one pound notes, took place in April 1829, after a period of fourteen years of profound peace. Yet the measure by some

has been pronounced to be too hasty in its operation ?

Can the supposition be for a moment seriously entertained, that the resumption of cash payments, and the suppression of one pound notes, both which measures were brought into effect with much deliberation, a considerable time after the causes which had obliged the legislature to suspend the former, and permit the latter, had ceased, could at once be abandoned, to satisfy the avarice, or the fallacious impression, or the speculative intentions, of any set of persons in this country ?

What an uncertainty as to the value of every description of property, what a contempt for the most deliberate acts of the legislature, must arise in the minds of men, if the Parliament of Britain, from any mistaken notion of expediency, recalled its former determination, and permitting itself to be influenced by a weak display of popular clamour, were to act against public opinion and the real and best interests of the community !

It may not be improper briefly to notice the

objections made to some of the passages in the former edition of this pamphlet, and to explain more fully those remarks which may occasionally have been misunderstood.

The writer has been told by an advocate for one pound notes, that he has assumed and advanced an unfair argument, in stating that one pound bank of England and country notes, payable in cash at the will of the holder, might depreciate the currency : he is assured that such a conclusion, as long as they could be converted into gold, cannot be correct : however, after the best consideration that he can give to the subject, he cannot but retain the opinion already expressed, and think that permission to issue one pound notes, granted to the bank of England, or to country banks, would have an injurious tendency. The depreciation arising from such a cause, would not of course, be equal to that which occurred in consequence of the suspension of cash payments ; yet if one pound notes were allowed, more paper might be issued than would be required by the wants of the community, which seems little doubtful after

the events that occurred at the close of the year 1825 in the money market and throughout the country. If one pound notes were in circulation, although these might be payable in gold, yet an over issue of such notes would in all probability take place (such is the eagerness of mankind for profit) which would require a greater proportionable amount of sovereigns to be hoarded. If such precaution were not taken, and a panic were to occur, there would not be sufficient to meet the demand. The issue therefore of one pound notes, if not exchangeable into gold, must be most injurious as already proved by almost every writer on the subject. If such notes were convertible into gold, of what service could their being issued prove, unless more were sent forth than there was gold to be exchanged for them; which last supposition if brought into practice, would not only be a fraud on the public, but tend to a general panic, if a run for gold were to take place. The writer's observations have therefore, in these remarks, been directed to the consideration of the question of the issue of one pound notes, suppos-

ing always such notes to be convertible into gold.

There might be an impropriety in entering into any field of discussion not connected with the particular view of the subject which has been taken ; no attempt therefore need be made to enforce here some of the many arguments so often and so powerfully repeated against the issue of small notes, from the temptation thereby held out for the commission of forgery, and the number of capital punishments that took place in consequence.\* The amount of forgeries that occurred when small notes were in circulation is easily ascertained : the argument on this point not being connected directly with the currency is not pressed here, although of the greatest importance in reference to the moral principle, and the lives of many individuals in the community.

Some exceptions have been taken at the state-

\* A revision of the laws concerning forgery has very lately been taken into consideration, and laid before the House of Commons, a measure which certainly could not have been attempted if the issue of small notes were allowed.

ment made in the first edition of these remarks ; that the amount of gold \* procured by metallurgy, was to that of silver, as 1 to 45. If this assertion be questioned, the writer can only again refer to the authority of Baron Humbolt, and observe, that, after the best attention he can give the subject, he thinks the assertion is correct. Should surprise be excited, that in such a case the value of gold to silver is not in the same proportion, it must not be forgotten, that in proportion as civilization increases in any community, more wealth is created, that the middle class proportionably increases, and consequently that the demand for articles of luxury, of which silver constitutes a part, becomes proportionably greater. If, therefore, twice the quantity of silver were in the possession of mankind than there is at this moment, it does not follow, that silver would fetch in the market only half of what it does at present, because its consumption and the demand for it would be much increased by lowering the price. In the days of Adam Smith he computed that the manufactures of

\* See page 47.

Birmingham alone worked up annually the worth of £50,000 of silver. (Wealth of Nations, B. I. Ch. II.) Since that time the demand has increased in a very great ratio. The fact is so evident as scarcely to need further comment.

The amount due to natives of Great Britain by foreign governments, and by foreigners of every description, for capital advanced in the shape of loans, for sums lent for other purposes, or for credit given in some shape or other, must be very considerable. To ascertain the precise amount of such debt due to the natives of this country would be nearly impossible, nor is it necessary. For the sake of the argument, let us assume that the whole of the amount due by foreign states and foreigners to the members of this community may not be less than fifty millions: in the event of a paper circulating medium being established, and a depreciation of 25 per cent in such currency taking place in consequence, the result must necessarily be that the creditors would, when paid by foreigners in a depreciated currency, receive 25 per cent. less than they would otherwise obtain; and consequently, that this de-

preciation as far as such creditors are concerned, would to them occasion a loss of twelve millions and a half. It is evident, if the sum owing to Great Britain by foreign states were greater, the loss would be proportionably more severe on the persons by whom money or credit had been given.

The bullion report of 1810 states, that the increase of country paper in that year, and in the preceding, was considerable.

“Your Committee are led to infer from all the evidence they have been able to procure on this subject, not only that a great number of new country banks has been established within these last two years, but also, that the amount of issues of those that are of an older standing has in general been very considerably increased.” The fact is so certain, that there is no necessity to accumulate further evidence. As a proof however that such over issue of paper tends to a panic and to general distrust, it is only necessary to refer to the result that took place about the latter end of the year 1810, “when credit in the commercial world sustained a severe blow, many country banks stopped payment, and of those

banks that stood their ground the circulation became for some time necessarily very much contracted." All this distrust took place at a time when paper was the only circulating medium of the country.

"The late distress," states a writer on the subject, "originated in an excessive issue of paper, and in a consequent contraction of that paper; that overtrading was the necessary consequence of an inundation of depreciated paper, and that no one can have paid any attention to the nature of currency, without being assured that the Bank of England possessed (as long as it has the power of issuing one pound notes) a formidable power over the prosperities of its fellow-subjects, which has been, and can be, productive of the most ruinous effect without conferring one redeeming benefit."\*

Another writer, with reference to the period of distress in 1793, says, "Amidst the general calamity, the country banks, which were multiplied greatly beyond the demand of the country for circulating paper currency, and whose eagerness to

\* Drummond on the Currency, pp. 64, and 65.

push their notes into circulation had laid the foundation of their own misfortunes, were amongst the greatest sufferers, and consequently the greatest spreaders of distress and ruin among those connected with them.”\*

Lord Liverpool’s letter to the Directors of the Bank of England, January 13, 1826, says: “The principal source of the present distress is to be found in the rash spirit of speculation, supported, fostered, and encouraged, by the country banks;” and suggests, “to prevent the recurrence of such evils as then existed, that the issuing of one and two pound notes should be prohibited.”

Another writer asserts, “the country banks increased their issues between 1822 and 1825 seven millions, and the enlargement of the circulating medium was sufficiently considerable in point of amount and coincident in point of time, to account for the rise of prices in the last three years.”† The same writer proposes, as a remedy, that notes under five pounds should not be any longer tolerated. Another person who

\* Macpherson’s *Annals of Commerce*, vol. iv. p. 266.

† Tooke on *Currency*, pp. 32, 48, 66.

has written on the currency asserts, that the attractions in the money-market may be attributed to the increase of our paper money ; “ that in the state of the currency alone shall we find the true explanation of the state of public madness for speculation ;” and further says, “ that he is disposed to attribute the whole of the distress to the increased issues of the bank of England in 1824,”\* and suggests as a remedy, that no notes shall be issued under the value of twenty pounds.

The tendency of a paper circulating medium to create a depression in the funds or public securities of any nation by whom such paper money is used, seems to arise from this cause, that the issue and use of such paper currency seems to evince something wrong, excites distrust, and if want of confidence arises, (no matter from what cause,) the funds naturally are influenced in proportion as such want of confidence exists. This has always been the case as far as the English funds are concerned. These public securities did not rise, as was anticipated,

\* Mushett, p. 123.

so long as a proper circulating medium only existed, even after the restoration of peace ; but when the cash resumption bill took place, they gradually rose so as to enable the government to pay off the four per cents. Although, therefore, it might seem, at first sight, probable that a great issue of paper, by creating a superabundant capital, would have a tendency to raise the funds, yet on further consideration it will appear such an effect is more than counteracted by the want of confidence it generates, and the uncertainty as to the value of property which are the usual concomitants of a paper currency.

Supposing a paper circulating medium were sanctioned by Parliament, it would be a violation of the solemn engagement understood to have been made during the war, that, on the return of peace cash payments should be resumed. If the legislature, in the face of this solemn engagement, were to violate it by any subsequent measure, there cannot be a doubt that a mistrust of the national faith would be the natural consequence ; the result of which would induce holders of stock and the public to invest

their capital in other countries, where a higher rate of interest and equal security could be obtained. From the scrupulous adherence to preserve faith with the public creditor, which has been manifested by the government and Parliament of Great Britain, the English funds have been considered, and continue to be considered, (so long as such public faith is preserved inviolate,) the best and most secure investment for personal property that is to be found in Europe. This is manifested, beyond the power of contradiction, from the low rate of interest which the English funds afford, compared to that yielded by the public securities of the other nations of Europe and America.

Whatever, therefore, may be asserted by the advocates for the issue of one pound notes, and by those who contend that, as long as these one pound notes are exchangeable for gold the circulating medium of the country cannot be depreciated, it seems impossible to come to any other conclusion, that under any circumstance, an issue of such notes would be most injurious to the best interests of the community. The evils

and the danger arising from a circulating medium consisting only of paper, have been so often and so fully discussed by the ablest political economists of the day, that any observations on that question must be superfluous. The writer of these remarks, therefore, repeats that he has confined himself to the question of the issue of one pound notes, supposing such notes to be convertible into gold at the option of the holder.

In sending forth this edition, it has been thought advisable to subjoin these additional remarks, which the writer hopes may not be thought irrelevant on the present occasion. In concluding it may be as well to quote the words of the Report.\* “Relief, the Committee hope, will ere long be found in a partial reduction of the rate of interest of money, now that public loans have ceased; that accumulations of capital in the hands of individuals are probable; and that the sinking fund bids fair to have a steady operation on our public debt. Such an alleviation has been produced in former intervals of peace; and if at present the want of it has

\* Agricultural Report for 1821.

become more urgent, the salutary result will, it is to be hoped, be more speedily effected. The Committee look to it with the more anxiety, because amid all the injury and injustice which an unsettled currency (an evil, they trust, never again to be incurred) has in succession cast on the different ranks of society, the share of that evil which has now fallen on the landed interest admits of no other relief. Our difficulties, great as they unfortunately are, must diminish in proportion as contracts, prices, and labour adjust themselves to the present value of money: a change which is now in progress, and which the Committee are satisfied will continue until the restoration of that balance which shall afford to labour its due remuneration, to capital its fair return."

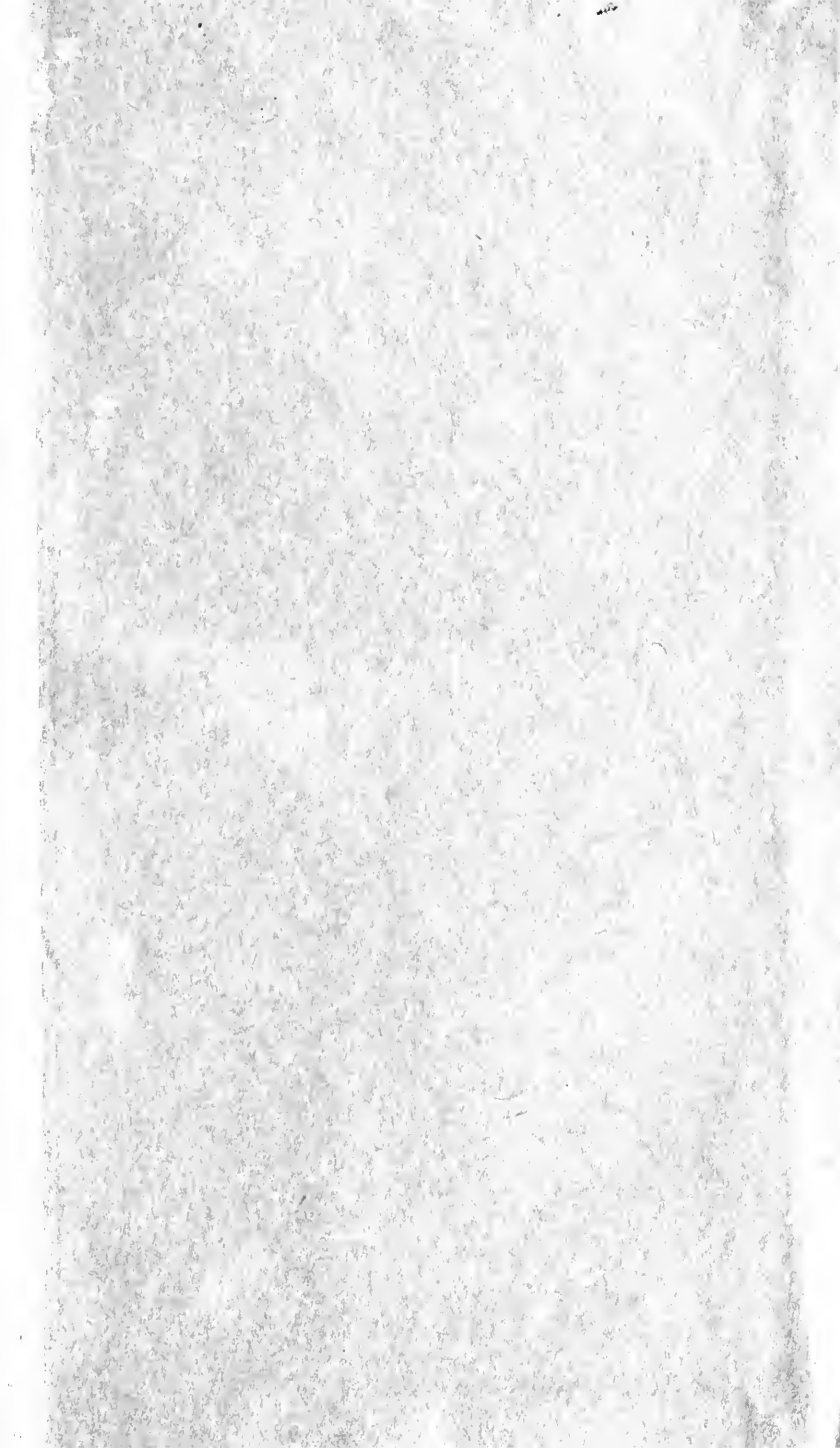
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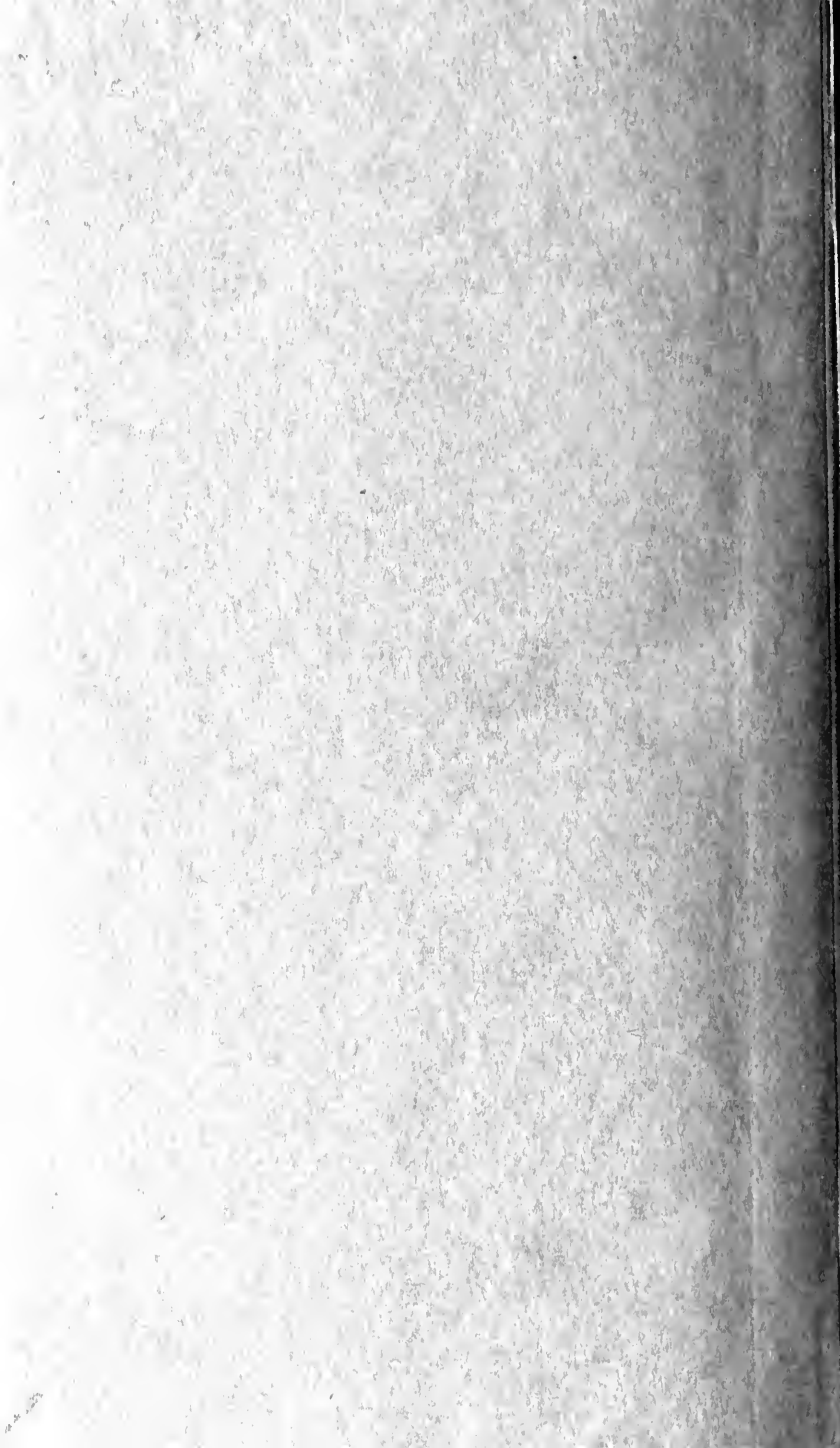
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